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FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 1205
INFO AMEMBASSY CARACAS
AMEMBASSY LA PAZ
AMEMBASSY LIMA
AMEMBASSY PANAMA
AMEMBASSY QUITO
CIA WASHDC
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DOE HQS FORRESTAL BLDG WASHINGTON DC

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SUBJECT: COLOMBIA'S OIL AND GAS: POTENTIAL AND PROBLEMS

REF: A. BOGOTA 7672
B. BOGOTA 7397
C. BOGOTA 4839
D. BOGOTA 6911
E. BOGOTA 8329

1. SUMMARY AND COMMENT: DESPITE HAVING AN ESTIMATED 47 BILLION BARRELS OF POTENTIAL OIL AND GAS RESERVES, COLOMBIA HAS ONLY TWO BILLION BARRELS OF PROVEN RESERVES, DUE TO A WEAK EXPLORATORY RECORD IN THE LAST DECADE. SERIOUS EFFORTS

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J OLSON
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HAVE BEEN MADE TO IMPROVE COLOMBIA'S OIL ROYALTY LAWS, HOWEVER, REGULATORY AND SECURITY CONCERNS CONTINUE TO HAMPER NEW EXPLORATION AND PRODUCTION. IN ADDITION, TERRORIST ATTACKS ON OIL PIPELINES CONTINUE, ALTHOUGH INCREASED GOC AND COLMIL ATTENTION TO THE PROBLEM HAS HELPED CONSIDERABLY THIS YEAR, WITH THE ATTACK FIGURES DOWN NEARLY 75 PERCENT FROM LAST YEAR. COLOMBIA ALSO HAS SERIOUS PROBLEMS IN DOWNSTREAM ISSUES AS WELL. GASOLINE THEFT AND SMUGGLING IS ANOTHER DRAIN ON GOC REVENUES (REF E), WHILE LEGITIMATE RETAILERS COMPLAIN THAT CURRENT REGULATIONS ARE NOT CLEAR AND DO NOT ADEQUATELY PROTECT THEIR INVESTMENT.

2. IN 2001, COLOMBIA LOST NEARLY HALF A PERCENT OF ITS GDP DUE TO ATTACKS ON THE CANO LIMON PIPELINE. THIS AMOUNT, COMBINED WITH THE REVENUES LOST IN THE DOWNSTREAM SECTOR, NEARLY EQUALS THE ONE PERCENT OF GDP THAT COLOMBIAN PRESIDENT ALVARO URIBE HOPES TO RAISE FOR MILITARY SPENDING FROM THE NEW 1.2 PERCENT WEALTH TAX. URIBE, AS WELL AS MINISTER FOR MINES AND ENERGY LUIS ERNESTO MEJIA, SEEMS TO BE RECEPTIVE TO
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SUGGESTIONS ON THESE ISSUES, BUT INTERNAL POLITICAL PRESSURES, ESPECIALLY IN THE DOWNSTREAM SECTOR, COULD UNDERMINE THEIR BEST EFFORTS. IT SHOULD BE STRESSED THAT IN THE CURRENT INVESTMENT CLIMATE, PRESIDENT URIBE MUST MAKE EVERY EFFORT TO PROTECT FOREIGN COMPANIES AND ENTICE THEM TO ENTER BOTH COLOMBIA'S UPSTREAM AND DOWNSTREAM SECTORS BY REMOVING REGULATORY OBSTACLES. END SUMMARY AND COMMENT.

IMPORTANCE OF COLOMBIA'S HYDROCARBONS

3. COLOMBIA IS THE SEVENTH LEADING SUPPLIER OF OIL TO THE UNITED STATES. WITH OIL REPRESENTING 44 PERCENT OF ITS EXPORTS, COLOMBIA DEPENDS HEAVILY ON OIL REVENUES FOR MACROECONOMIC STABILITY. COLOMBIA PRODUCES NEARLY 600,000 BARRELS OF OIL PER DAY, ACCORDING TO INFORMATION FROM STATE OWNED OIL FIRM, ECOPETROL. OF THAT AMOUNT, AROUND 360,000 BPD ARE EXPORTED, MOSTLY TO THE UNITED STATES. COLOMBIA HAS ABOUT TWO BILLION BARRELS OF PROVEN RESERVES. THE NEW MINISTER OF MINES AND ENERGY, LUIS ERNESTO MEJIA CASTRO, HAS STATED PUBLICLY HIS GOAL OF DOUBLING THOSE RESERVES WITHIN FOUR YEARS. OTHERWISE, DESPITE HAVING TWO OF THE WORLD'S 25 LARGEST FINDS IN THE 1990'S, BP'S CUSIANA AND CUPIAGUAS FIELDS, ECOPETROL ADMITS THAT COLOMBIA FACES THE VERY REAL THREAT OF BECOMING A NET IMPORTER OF PETROLEUM BY 2008 (REF C).

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4. THE HYDROCARBON SECTOR ACCOUNTS FOR NEARLY 10 PERCENT OF COLOMBIA'S GDP. DESPITE DECLINING PRODUCTION, HIGHER THAN EXPECTED OIL PRICES HAVE BEEN A BOON FOR ECOPETROL, WHICH
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SHOULD TRANSFER BETWEEN USD 270 MILLION AND 400 MILLION TO THE GOC THIS YEAR (REF A). THIS FIGURE IS OVER AND ABOVE ROYALTIES WHICH COME STRAIGHT OFF THE TOP OF OIL PRODUCTION IN COLOMBIA. IN 2001, USD 614 MILLION WORTH OF ROYALTIES WENT TO THE NATIONAL, DEPARTMENTAL AND LOCAL GOVERNMENTS.

A STILL CHALLENGING INVESTMENT CLIMATE

5. A NEW ROYALTY LAW PASSED THIS SUMMER HAS ADDRESSED SOME OF THE CONCERNS HELD BY FOREIGN OIL COMPANIES ABOUT THE INVESTMENT CLIMATE, BUT SECURITY CHALLENGES, AS WELL AS REGULATORY PROBLEMS, CONTINUE TO RESTRAIN NEW INVESTMENT. THE NEW ROYALTY LAW (REF D) IMPOSES VARIABLE ROYALTIES THAT MAKE SMALLER FIELDS MORE ECONOMICALLY VIABLE. UNDER A PREVIOUS VERSION OF THE BILL THAT WAS STRUCK DOWN BY THE CONSTITUTIONAL COURT OVER A TECHNICALITY, NEARLY 60 CONTRACTS WERE SIGNED IN TWO YEARS.

6. HOWEVER, DESPITE THE GENERALLY POSITIVE REACTION TO THE NEW ROYALTY LAW, THERE REMAIN SIGNIFICANT OBSTACLES TO NEW EXPLORATION AND PRODUCTION. DUE TO THE SECURITY CHALLENGES OF WORKING IN REMOTE PARTS OF COLOMBIA, THERE IS ONLY ONE MAJOR COMPANY CONDUCTING SEISMIC TESTING. COLOMBIAN

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FM AMEMBASSY BOGOTA
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INFO AMEMBASSY CARACAS
AMEMBASSY LA PAZ
AMEMBASSY LIMA
AMEMBASSY PANAMA
AMEMBASSY QUITO
CIA WASHDC
SECDEF WASHDC
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SUBJECT: COLOMBIA'S OIL AND GAS: POTENTIAL AND PROBLEMS

PETROLEUM ASSOCIATION (ACP) DIRECTOR OF ECONOMICS, JUAN FELIPE GONZALEZ, SAID THAT THIS CAUSES THE PRICE OF SEISMIC TESTING TO BE NEARLY THREE TIMES HIGHER THAN IN COMPARABLE COUNTRIES. ALSO HINDERING NEW EXPLORATION, ACCORDING TO GONZALEZ, ARE CUMBERSOME ENVIRONMENTAL REGULATIONS. IN CANADA, A PERMIT FOR AN EXPLORATORY WELL CAN BE OBTAINED IN 10 DAYS WHILE IN COLOMBIA IT CAN TAKE AS LONG 11 MONTHS.

NATURAL GAS PROSPECTS

7. ONE OF THE MOST PROMISING OPPORTUNITIES IS THE DEVELOPMENT OF COLOMBIA'S OFFSHORE NATURAL GAS RESERVES. ECOPETROL VICE-PRESIDENT FOR EXPLORATION, VICTOR EDUARDO PEREZ, SAID THAT COLOMBIA'S OFFSHORE RESERVES COULD BE AS GREAT AS 35 TRILLION CUBIC FEET OF NATURAL GAS AND THREE BILLION BARRELS OF OIL. CURRENTLY, TEXACO PRODUCES THE NATURAL GAS EQUIVALENT OF OVER 100,000 BARRELS OF OIL PER DAY. NATURAL GAS IS WIDELY USED IN COLOMBIA FOR ELECTRICITY PRODUCTION AND COOKING AND DOMESTIC DEMAND IS EXPECTED TO REACH 4 MILLION USERS IN THE NEXT SEVERAL YEARS. DUE TO POLITICAL PRESSURES, NATURAL GAS PRICES ARE FIXED AT A RATE ABOUT HALF THAT OF THE PREVAILING PRICE IN THE UNITED STATES, ACCORDING TO LEOPOLDO MONTANEZ, EXECUTIVE DIRECTOR OF NATURGAS, THE INDUSTRY TRADE ASSOCIATION. EXPORTING NATURAL GAS IS ALSO PROHIBITED.

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8. A FEASIBILITY STUDY FOR A PIPELINE TO TRANSPORT COLOMBIAN
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NATURAL GAS FROM LA GUAJIRA IN NORTHEASTERN COLOMBIA FOR
INJECTION IN VENEZUELA'S MARACAIBO FIELDS HAS BEEN COMPLETED.
TEXACO'S HEAD OF COLOMBIAN OPERATIONS, ALEX ARCHILA, SAID
THAT IT APPEARS LIKELY THE PROJECT WILL MOVE FORWARD, BUT
COULD NOT GIVE A TIMEFRAME WHEN CONSTRUCTION MIGHT BEGIN ON
THE PIPELINE. ARCHILA TOLD ECONOFF THAT THE PROJECT WILL
REQUIRE TEXACO TO INVEST USD 140 MILLION IN NEW EQUIPMENT TO
INCREASE PRODUCTION FROM ITS TWO EXISTING PLATFORMS BY 10
PERCENT.

9. THERE IS A SIGNIFICANT AMOUNT OF NATURAL GAS IN BP'S
CUSIANA AND CUPIAGUA FIELDS. TO DATE, THAT GAS HAS BEEN
REINJECTED TO HELP MAINTAIN PRODUCTION LEVELS. HOWEVER, DUE
TO THE FIELDS' PROXIMITY TO THE LARGE BOGOTA AND CALI
MARKETS, THERE IS INCREASED DISCUSSION OF BUILDING A GAS
PROCESSING PLANT. MEJIA HAS STATED THAT ECOPETROL WILL BUILD
THE PLANT BY ITSELF IF BP DOES NOT WANT TO PARTNER WITH
ECOPETROL. ALL INDICATIONS ARE THAT DOMESTIC DEMAND
NECESSITATES THE CONSTRUCTION OF THE PLANT AS SOON AS
POSSIBLE.

EARLY SUCCESS IN CANO LIMON

10. IN 2001, PRODUCTION FROM THE CANO LIMON OILFIELD,
OPERATED BY OCCIDENTAL PETROLEUM AND ECOPETROL, WAS SUSPENDED
FOR NEARLY EIGHT MONTHS DUE TO TERRORIST ATTACKS ON THE
PIPELINE. THE FOREGONE PRODUCTION COST COLOMBIA NEARLY USD
450 MILLION AND SHAVED HALF A PERCENTAGE POINT OFF COLOMBIA'S
GDP. THE ENVIRONMENTAL DAMAGE TO THE REGION HAS BEEN
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TREMENDOUS. THE TOTAL AMOUNT OF OIL SPILLED SINCE PRODUCTION
BEGAN IN 1986 IS NOW MORE THAN 11 TIMES THAT SPILLED FROM THE
EXXON VALDEZ. FURTHERMORE, SINCE THE DEPARTMENT OF ARAUCA'S
BUDGET DEPENDS ALMOST ENTIRELY ON OIL ROYALTIES, SOCIAL
INVESTMENT HAS BEEN GREATLY AFFECTED.

11. THANKS TO INCREASED PATROLS BY THE COLMIL ALONG THE
PIPELINE AND THE ESTABLISHMENT IN ARAUCA OF A DEDICATED
ANTI-TERRORIST UNIT OF THE ATTORNEY GENERAL'S OFFICE, MORE
THAN 40 TERRORISTS HAVE BEEN ARRESTED IN CONNECTION WITH
PIPELINE ATTACKS. THERE HAVE ONLY BEEN 30 SUCCESSFUL ATTACKS

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ON THE PIPELINE THIS YEAR, WHILE 42 HAVE BEEN THWARTED. LAST YEAR THERE WERE 170 ATTACKS. THOUGH THE GOC'S SUCCESS IN REDUCING THE NUMBER OF ATTACKS HAS BEEN IMPRESSIVE, THE THREATS TO THE PIPELINE REMAIN. THE U.S. CONGRESS HAS RECENTLY APPROVED USD 88 MILLION THAT WILL HELP TRAIN SPECIALIZED ANTI-TERRORIST UNITS OF THE COLMIL, WHILE ENCOURAGING AND SUPPORTING GREATER SOCIAL INVESTMENT AND GOC AND LOCAL GOVERNMENT CAPACITY-BUILDING IN THE REGION.

DOWNSTREAM ISSUES

12. MEJIA HAS BEEN VERY ACTIVE IN ADDRESSING SERIOUS

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	PRS-00	ACE-00	SP-00	IRM-00	SSO-00	SS-00	STR-00
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FM AMEMBASSY BOGOTA
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DOWNSTREAM ISSUES, ANNOUNCING THE ELIMINATION OF GASOLINE SUBSIDIES (REF B) AND WORKING AGGRESSIVELY TO COMBAT GASOLINE THEFTS AND SALES OF CONTRABAND GAS (SEPTTEL). REPRESENTATIVES FROM TEXACO, EXXONMOBIL, TERPEL (ECOPETROL'S RETAIL ARM), SHELL, AND ACP RECENTLY BRIEFED THE AMBASSADOR ON AN INDUSTRY PROPOSAL CALLING FOR BETTER GOC MONITORING OF WHOLESALE AND RETAIL GASOLINE SALES.

13. THE MAJOR NATIONAL AND MULTINATIONAL RETAILERS EXPRESSED UNIVERSAL CONCERN THAT IN ITS HASTE TO INTRODUCE COMPETITION, THE GOC HAS NOT ADEQUATELY PROTECTED RETAILERS' INVESTMENTS IN STORAGE AND TRANSPORTATION FACILITIES. THEY ALSO CAUTIONED THAT LOWER LICENSING REQUIREMENTS COULD LEAD TO UNSAFE CONDITIONS, AS WELL AS PROVIDE MEANS FOR ILLEGAL GROUPS TO "LAUNDER" THEIR STOLEN AND CONTRABAND GASOLINE THROUGH NEWLY-LICENSED, AND LESS CLOSELY MONITORED, WHOLESALERS. INDUSTRY REPRESENTATIVES SAID THAT THEY ARE CONSISTENTLY UNABLE TO MEET THE GOC PROFIT TARGET OF 8 CENTS PER GALLON. CLEAR RULES OF THE GAME WITH HIGHER CERTIFICATION REQUIREMENTS WOULD ENSURE A HEALTHY MARKETPLACE, ATTRACTIVE TO REPUTABLE COMPANIES.
PATTERSON

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